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UNCLAS SECTION 01 OF 02 HARARE 001581

SIPDIS

SENSITIVE

STATE FOR AF/S, AF/EX, HR/OE-MTRACY  
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER  
USDOC FOR 2037 DIAMOND  
LONDON FOR CGURNEY  
PARIS FOR NEARY  
NAIROBI FOR PFLAUMER  
PASS USTR - ROSA WHITAKER  
RIO FOR WEISSMAN  
TREASURY FOR ED BARBER AND C WILKINSON

E.O. 12958: DECL: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [ZI](#)

SUBJECT: NEGATIVE FACTORS COMBINE TO DRASTICALLY DRAG  
DOWN THE ZIMBABWEAN ECONOMY

REFTEL: HARARE 1406

[1](#)1. (SBU) A powerful and negative combination of factors is now causing significant damage to Zimbabwe's economy, and the country's political leadership refuses to take steps to address or reverse the crisis. The more-evident ingredients of the disastrous mix are:

- = an unsustainable government deficit (in 2002 at least 15 percent of GDP);
- = money supply growth in excess of 90 percent (annualized);
- = a spread between the official and parallel market forex rates of 7 to 10 times;
- = the dominance of the GOZ's instinctive Marxist reaction to exercise more market control rather than less;
- = resultant shortages or stockouts of price-controlled items such as salt, oil, sugar and bar soap;
- = the continuing decimation of the economy's foundation-commercial agriculture;
- = a resultant food shortage exacerbated by a regional drought;
- = highly credible threats by the chief executive that lawless expropriation and theft will extend to the rest of the formal economy;
- = blame for the current ills shamelessly attributed to businesspersons and the model of Western capitalism;
- = and, all of the foregoing resulting in a geometrically reinforcing mix of high and climbing inflation and rapidly shrinking real GDP.

[1](#)2. (SBU) With this occurring in real time outside the window, a cabinet meeting held on June 27 to address the economic crisis resulted only in outright rejection of steps advised by the Reserve Bank and the Finance Ministry. (Though tightly held we have heard that these steps included: an official rate devaluation; recognition of the role of the parallel market and an admission of GOZ use of it; raising of interest rates to more realistic levels; a public and credible reversal of the order to commercial farmers to halt all activity; and the revision upward of controlled prices to at least breakeven levels.) Rather than recognize the laws and tenets of the social science of economics, the cabinet blamed the two civil agencies for allowing market forces to wreak havoc on the GOZ agenda of the Third Chimurenga; where the economy is the land and the land the economy. Neither had done enough to "control" the hard currency markets and flows, and insidious private companies with mostly white ownership were purposely sabotaging the economy under the very nose of the Ministry and the Bank by hoarding and profiteering -- with an intent to cause the populace to suffer to such an extent that they lose faith in the leadership and beneficence of the ruling ZANU-PF party. Both were told to do more to stamp out the damaging forces of the open market, and not try to bring murungu (Shona for white or caucasian, and uttered by the President) solutions to an African environment.

[1](#)3. (SBU) On the public relations side, all the GOZ has done is point the finger at business owners small and large, accusing them of putting greed and a lust for profits ahead of the interests of the nation and its people. A food subsidiary of Anglo-American is accused by the President of hoarding salt and threatened with swift takeover, and legitimate businesses and black market profiteers are accused of forming an unholy alliance to stymie the GOZ's sensible and good price control regime. "We are looking only after your interests," the people are told by the ruling party, "and we need your help to not allow the conspirators to

thwart us." In the meantime Zimbabwe's economy is tanking and the damage is becoming monumental.

14. (SBU) Comment: Zimbabwe's leadership seems determined to stay on the current disastrous path regardless of the harm done, as the President deems it to be necessary for his retention of power. At this point it appears that there is no one that can or will convince him otherwise, either domestically or internationally. End Comment.

SULLIVAN